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Commissioner

IN THE MATTER OF THE APPLICATION
OF U S WEST COMMUNICATIONS, INC.,
A COLORADO CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF
THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN THEREON
AND TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. T-01051B-99-0105

QWEST CORPORATION'S NOTICE
OF FILING PROPOSED FORM OF
ORDER Arizona Corporation Commission

DOCKETED

NOV 22 2000

DOCKETED BY

CLP

Qwest Corporation ("Qwest"), formerly U S WEST
Communications, Inc., hereby provides notice of filing a proposed
form of order as discussed at the procedural conference that was
held in this matter on November 2, 2000. The proposed form of
order is attached hereto as Exhibit A.

RESPECTFULLY SUBMITTED this 22-2 day of November, 2000.

FENNEMORE CRAIG, P.C.

By

Timothy Berg
Theresa Dwyer

3003 North Central, Suite 2600
Phoenix, Arizona 85012

Attorneys for Qwest Corporation

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4 ORIGINAL AND TEN of the foregoing
5 filed this ____ day of
6 November, 2000, with:

7 Docket Control
8 ARIZONA CORPORATION COMMISSION
9 1200 West Washington
10 Phoenix, Arizona 85007

11 COPY of the foregoing hand-delivered
12 This 22nd day of November, 2000, to:

13 Deborah Scott
14 Director, Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington
17 Phoenix, Arizona 85007

18 Jerry L. Rudibaugh, Chief Administrative Law Judge
19 Hearing Division
20 Arizona Corporation Commission
21 1200 W. Washington
22 Phoenix, AZ 85007

23 COPY of the foregoing mailed and/or e-mailed
24 This 22nd day of November, 2000, to:

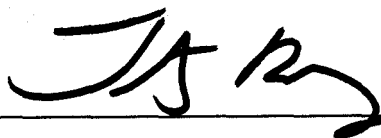
25 Scott S. Wakefield, Chief Counsel
26 Residential Utility Consumer Office
2828 N. Central Ave., Suite 1200
Phoenix, AZ 85004-1022

Darren S. Weingard
Natalie D. Wales
Sprint Communications Company, L.P.
1850 Gateway Drive, 7th floor
San Mateo, CA 94404-2467

Steven J. Duffy
Ridge & Isaacson, P.C.
3101 N. Central Ave., Suite 432
Phoenix, AZ 85012

- 1 Raymond S. Heyman
- 2 Randall H. Warner
- 3 Roshka Heyman & DeWulf
- 4 Two Arizona Center
- 5 400 N. Fifth St., Suite 1000
- 6 Phoenix, AZ 85004
- 7
- 8 Peter Q. Nyce, Jr.
- 9 General Attorney, Regulatory Law Office
- 10 U.S. Army Legal Services Agency
- 11 Department of the Army
- 12 901 N. Stuart St., Suite 700
- 13 Arlington, VA 22203-1837
- 14
- 15 Richard Lee
- 16 Snaveley, King, Majoros, O'Connor & Lee, Inc.
- 17 1220 L St., N.W., Suite 410
- 18 Washington, D.C. 20005
- 19
- 20 Thomas F. Dixon
- 21 MCI WorldCom
- 22 707 17th St., Suite 3900
- 23 Denver, CO 80202
- 24
- 25 Thomas H. Campbell
- 26 Lewis & Roca
- 40 N. Central Ave.
- Phoenix, AZ 85004
- Richard S. Wolters
- AT&T
- 1875 Lawrence St., Suite 1575
- Denver, CO 80202
- Mary B. Tribby
- AT&T
- 1857 Lawrence St., Ste. 1575
- Denver, CO 80202
- Patricia VanMidde
- AT&T
- 2800 N. Central, Room 828
- Phoenix, AZ 85004

- 1 Diane Bacon, Legislative Director
Communications Workers of America
- 2 Arizona State Council
5818 N. 7th St., Suite 206
- 3 Phoenix, AZ 85014-5811
- 4 Michael W. Patten
BROWN & BAIN, P.A.
2901 North Central Avenue, Suite 2000
- 6 Phoenix, Arizona 85001-0400
- 7 Craig Marks
Citizens Utilities Company
- 8 2901 N. Central Ave., Suite 1660
- 9 Phoenix, AZ 85012
- 10 Michael M. Grant
Todd C. Wiley
- 11 Gallagher & Kennedy, P.A.
2575 East Camelback Road
- 12 Phoenix, AZ 85016-9225
- 13 Jeffrey Crockett
Snell & Wilmer
- 14 One Arizona Center
- 15 Phoenix, AZ 85004-0001
- 16 J.E. McGillivray
300 S. McCormick
- 17 Prescott, AZ 86303
- 18 Jon Poston
Arizonians for Competition in Telephone Service
- 19 6733 East Dale Lane
- 20 Cave Creek, AZ 85331
- 21 Albert Sterman
Vice President
- 22 Arizona Consumers Council
2849 E. 8th Street
- 23 Tucson, AZ 85716
- 24
- 25
- 26

- 1 Douglas Hsiao
2 Frank Paganelli
3 Rhythms Links, Inc.
4 6933 Revere Parkway
Englewood, CO 80112
- 5 Jim Scheltema
6 Blumenfeld & Cohen
1625 Massachusetts Ave., NW, Suite 300
7 Washington, SC 20036
- 8 Martin A. Aronson
9 William D. Cleaveland
Morrill \$ Aronson, PLC
One East Camelback, Suite 340
10 Phoenix, AZ 85012-1658
- 11 Joan S. Burke
12 Osborn Maledon, P.A.
2929 N. Central Ave., Suite 2100
13 Phoenix, AZ 85012
- 14 Mark N. Rogers
15 Excell Agent Service, L.L.C.
2175 W. 14th Street
16 Tempe, AZ 85281
- 17 Chuck Turner, Mayor
Town of Gila Bend
18 P.O. Box A
644 W. Pima Street
19 Gila Bend, AZ 85337-0019
- 20
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25 PHX/DPOOLE/1128156.1/67817.172
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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman
JAMES M. IRVIN
Commissioner
WILLIAM MUNDELL
Commissioner

IN THE MATTER OF THE APPLICATION
OF U S WEST COMMUNICATIONS, INC.,
A COLORADO CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF
THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN THEREON
AND TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. T-01051B-99-0105

DECISION NO. _____

OPINION AND ORDER

| | |
|--------------------|---|
| DATE OF HEARING: | November 29, 30 and December 1, 2000 |
| PLACE OF HEARING: | Phoenix, Arizona |
| PRESIDING OFFICER: | Jerry L. Rudibaugh |
| APPEARANCES: | FENNEMORE CRAIG by Mr. Timothy Berg on behalf of Qwest Corporation Mr. Scott Wakefield and Mr. Daniel Pozefsky, Staff Attorneys on behalf of the Residential Utility Consumer Office. ROSHKA, HEYMAN & DEWULF by Mr. Raymond Heyman on behalf of the Arizona Payphone Association and the Telephone Retirees' Association of Arizona |

AT&T LAW DEPARTMENT
by Mr. Richard Wolters and
DAVIS, WRIGHT & TREMAINE
by Ms. Mary Steele and Mr. Robert Tanner

MCI/WORLDCOM LAW DEPARTMENT
by Mr. Thomas Dixon

BROWN & BAIN
by Mr. Michael Patten
on behalf of Cox Communications, Inc.
and e-spire Communications

Mr. Peter Nyce
on behalf of the Department of Defense
and the Federal Executive Agencies

Ms. Diane Bacon
on behalf of the Communications
Workers of America,

Mr. Christopher Kempley and
Ms. Maureen Scott, Legal Division
on behalf of Arizona Corporation
Commission Staff.

BY THE COMMISSION:

On January 8, 1999, US WEST Communications, now known as Qwest Corporation, ("Qwest") filed an application to determine its earnings and the fair value of the Company for ratemaking purposes, to fix a just and reasonable return thereon and to approve rate schedules designed to develop such return for its Arizona intrastate operations. Intervention was subsequently granted to the Residential Utility Consumer Office ("RUCO"), AT&T Communications of the Mountain States, Inc. ("AT&T"), The Department of Defense and Federal Executive agencies ("DOD"), MCI/Worldcom ("MCI"), Sprint Communications ("Sprint"), Cox Communications ("Cox"), e-spire Communications ("e-spire"), The Arizona

Payphone Association ("APA"), the Telephone Retirees' Association of Arizona ("TRAA"), the Communications Workers of America ("CWA") and the Arizona Consumer Council ("Council").

The hearing on the application was originally scheduled to commence on November 4, 1999. That date was continued several times and the matter was reset for hearing to commence on September 25, 2000. On September 20, 2000, Qwest and the Utilities Division Staff ("Staff") of the Arizona Corporation Commission (the "Commission") filed a Joint Motion for Extension of Hearing asking for a two-week extension of the dates for the prehearing conference and the hearing to permit continuing negotiations to resolve some or all of the issues existing between the parties. On September 20, 2000, the Hearing Division continued the hearing in this matter to October 10, 2000. On October 4, 2000, Qwest and Staff filed a second motion for continuance and a procedural order was issued setting the prehearing conference for October 16, 2000 and the hearing for October 19, 2000. At the October 16, 2000 conference, a procedural schedule was set for the filing of a settlement agreement by Qwest and Staff, the filing of testimony in support of that settlement agreement, the filing of testimony in opposition to that settlement agreement, the filing of rebuttal testimony in support of the settlement agreement and a hearing with respect to the issue of whether the settlement agreement should be accepted by the Commission to commence on November 29, 2000.

On October 20, 2000, Qwest and Staff filed the settlement agreement with the Commission and served it on the parties the settlement agreement. On November 1, 2000, CWA filed a joinder in the settlement agreement. On October 27, 2000, Qwest and Staff filed testimony in support of the settlement agreement. On November 8, 2000, DOD filed testimony

in support of the settlement agreement. On November 13, RUCO, AT&T, Cox and the Council filed testimony in opposition to the settlement agreement. On November 20, 2000, Qwest and Staff filed rebuttal testimony in support of the settlement agreement. On November 20, 2000, the APA filed a joinder in the settlement agreement. On November 29, 2000, a full public hearing was convened before a duly authorized Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. Following the taking of testimony in support of and in opposition to the settlement agreement, the matter was taken under advisement pending the submission of a Recommended Opinion and Order to the Commission.

DISCUSSION

Qwest and the Staff have negotiated and filed a settlement agreement that would resolve all of the issues in this docket. DOD, CWA and APA have indicated their support for the Settlement Agreement. RUCO, AT&T, Cox and the Council have filed testimony in opposition to the Settlement Agreement. Therefore, a majority of the parties who filed testimony support the Settlement Agreement.

The issues raised by the opponents of the Agreement fall within four general areas: (1) the process for negotiation and approval of the Settlement Agreement; (2) the level of the revenue requirement deficiency established in the Settlement Agreement; (3) the level of the reductions in intrastate access rates contained in the Agreement; and (4) various concerns about the Price Cap Plan. We find that none of these criticisms are meritorious and approval of the Settlement Agreement is in the public interest.

Qwest and Staff negotiated a set of settlement principles and a proposed Price Cap Plan that was provided to the other parties in this docket on October 6, 2000. Following the

distribution of the statement of principles and Price Cap Plan, the Staff and Qwest met with the other parties to explain the Price Cap Plan and solicit input from those parties on the principles and Price Cap Plan. The Hearing Division ordered that a Settlement Agreement be filed with the Commission and distributed to the parties by October 20, 2000 and that testimony in support of the Settlement Agreement by Staff and Qwest be filed by October 27, 2000. The other parties to the docket were permitted to serve data requests on Qwest and Staff which those parties were required to respond to in 24 hours of receipt. The Hearing Division ordered that any testimony in opposition to the Settlement Agreement be filed on November 13, 2000 (38 days after the statement of principles and Price Cap Plan were provided to the other parties and 24 days after the Settlement Agreement was provided to those parties). A hearing was conducted on the appropriateness of the Settlement Agreement commencing on November 29, 2000. The process followed by the Hearing Division permitted the parties a fair and reasonable opportunity to evaluate the Settlement Agreement and Price Cap Plan and to make their concerns about the provisions of the Settlement Agreement and Price Cap Plan known to this Commission.

The revenue requirement level established by the Settlement Agreement is a reasonable compromise in this matter and results in just and reasonable rates. This is particularly true in light of the provisions of the Price Cap Plan that (1) prevent any increase in rates for specified basic and essential services during the term of the Price Cap Plan, and (2) require Qwest to recover the bulk of the increased revenue requirement in terms of upward flexibility for competitively priced services.

The concerns expressed by the parties opposing the Settlement Agreement concerning the rate design adopted in the Agreement are also without merit. The primary focus of these

concerns relate to the level of intrastate access charge reductions provided for in the Settlement Agreement. The Settlement Agreement provides that Qwest's intrastate access charges will be reduced so as to cause a \$ 5 million dollar reduction in the first year of the Plan, reduced an additional \$ 5 million in the second year of the Plan and an additional \$ 5 million in the third year of the Price Cap Plan. The Settlement Agreement also provides that it is the goal of the Staff to further reduce access charges levels in the future to achieve parity with intrastate access charge levels. AT&T opposes these provisions of the Plan arguing that intrastate access charges should be reduced to interstate levels during the term of the Plan or at least over a five year period commencing with the first year of the Plan. We have reviewed the evidence and argument of the parties in this regard and conclude that the Settlement Agreement represents a reasonable resolution of this dispute and results in rates that are just and reasonable.

Finally, RUCO, Cox, and AT&T criticize several features of the Price Cap Plan. We are persuaded by the testimony of Mr. Shooshan that the Price Cap Plan both complies with the fair value requirements of the Arizona Constitution and represents a fair balancing of the interests of the incumbent, the competitors and the ratepayers of Arizona. We approve the Price Cap Plan as filed by Staff and Qwest.

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes and orders that:

FINDINGS OF FACT

1. Qwest is a Colorado corporation that provides telephone service to the public in its service territory in Arizona.

2. On January 8, 1999, Qwest filed with the Commission an application to determine the earnings and the fair value of the Company for ratemaking purposes, to fix a just and reasonable rate of return thereon, and to approve rate schedules designed to develop such return.

3. On March 4, 1999, by procedural order, the Commission scheduled a hearing for November 4, 1999 and established filing deadlines and public notice requirements.

4. Pursuant to the Procedural Order, public notice was provided by Qwest.

5. The hearing in this matter was subsequently continued several times by order of the Hearing Division and the matter was ultimately reset for a hearing to commence on September 25, 2000.

6. On September 20, 2000, Qwest and the Staff filed a motion seeking a two-week extension of the date for commencement of the hearing to permit continuation of negotiations designed to resolve or limit the disputed issues. On September 20, 2000, the Hearing Division issued a procedural order continuing the hearing until October 10, 2000.

7. On September 29, 2000, a public comment session was held in Phoenix, Arizona as previously scheduled.

8. On October 4, 2000, Qwest and Staff filed a second motion for continuance. The Hearing Division issued a procedural order resetting the Procedural Conference for October 16, 2000 and the hearing for October 19, 2000.

9. At the October 16, 2000 Procedural Conference, a procedural schedule was set for the filing of a settlement agreement by Qwest and Staff on or before October 20, 2000, the filing of testimony in support of the settlement agreement by Qwest and Staff by October 27, 2000, the filing of testimony in opposition to the settlement by November 13, 2000, the filing of rebuttal

testimony in support of the settlement agreement by November 20, 2000, a procedural conference on November 22, 2000 and the commencement of the hearing on November 29, 2000.

9. On October 20, 2000, Qwest and Staff filed the settlement agreement. Qwest, Staff, DOD, APA and CWA joined in that agreement and filed testimony in support of the agreement. AT&T, RUCO, COX and the Council filed testimony or comments in opposition to the agreement.

10. The parties to the Settlement Agreement have agreed that Qwest be authorized an increase in revenue requirement of \$ 42.9 million effective with the implementation of the rates contained in the settlement agreement following Commission approval. A copy of the Settlement Agreement is attached to this order as Exhibit A. The revenue requirement established by the Settlement Agreement is supported by the evidence in the record and represents a reasonable compromise of the positions of the parties to the Agreement.

11. As a result of the Agreement, it is determined that for the test year ending December 31, 1999 the fair value rate base is \$ 1,435.3 million.

12. The Settlement Agreement further provides for a Price Cap Plan that establishes separate rate treatment for (1) Basic/ Essential/Noncompetitive Services; (2) Essential Wholesale Services; and (3) Competitive/NonEssential Services. A copy of the Price Cap Plan is attached to the Agreement as Attachment A.

13. The Staff, Qwest, CWA and APA believe that the Settlement is in the public interest and have recommended that the Commission adopt the Settlement Agreement.

CONCLUSIONS OF LAW

1. Qwest is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. § 40-250, 40-251 and 40-367.

2. The Commission has jurisdiction over Qwest, its rate application and the Settlement Agreement.

3. Qwest has provided notice of its rate application in accordance with law.

4. The Settlement Agreement resolves all matters raised by the rate application and the testimony filed by the parties to this docket in a manner that is just and reasonable and that promotes the public interest.

5. Under the Agreement, the fair value of Qwest's rate base is \$1,435.3 million and the authorized rate of return on that fair value rate base is 9.61%.

6. It is just and reasonable to authorize an overall rate increase of \$ 42.9 million as set forth in the Settlement Agreement and the Price Cap Plan.

7. Qwest should file revised tariffs consistent with the Agreement attached hereto as Exhibit A.

8. The rates, charges, and conditions of service as authorized herein are just and reasonable.

ORDER

IT IS THEREFORE ORDERED that the rates, charges and conditions of service for Qwest as set forth in the Settlement Agreement shall apply to all services after the effective date of this Order consistent with the Findings of Fact and Conclusions of Law contained herein so as to result in an overall rate increase of \$ 42.9 million.

IT IS FURTHER ORDERED that the terms and conditions of the Settlement Agreement attached hereto as Exhibit A and filed on October 20, 2000 are hereby adopted and approved.

IT IS FURTHER ORDERED that Qwest shall file revised tariffs that incorporate the rates, charges and conditions of service consistent with the Settlement Agreement and the Findings of Fact and Conclusions of Law herein.

IT IS FURTHER ORDERED that this Order will become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the State of Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capital, in the city of Phoenix, this _____ day of _____, 2000.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____